HOUSE RESEARCH
Bill Summary

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Overview

School districts must finance both ongoing capital needs, such as equipment purchases, repairs, maintenance, and major building construction projects. Major building projects are usually financed at the local level, often with the assistance of state paid debt service equalization aid. Districts generally borrow money through the sale of local general obligation (g.o.) bonds to pay for the construction of the facility and then levy an annual tax to repay the money over a period of years.

Some school districts find it difficult or impossible to finance construction projects through conventional bond sales because the district property tax base is too small. These districts can qualify for state assistance under the Maximum Effort School Aid Law. Under this program, the state borrows money via state bond sales and lends it to qualifying school districts on favorable terms. A district is eligible for a maximum effort capital loan only if its net debt tax rate, after any state-paid debt service equalization aid, is more than 24 percent of adjusted net tax capacity (ANTC).

If the capital loan is approved, the district must issue bonds up to the amount of: (1) the district's net debt limit, as defined in Minnesota Statutes, section 475.53 or (2) 363 percent of ANTC, whichever is less. The amount of the capital loan the district is eligible for is the difference between the total cost of the project and the amount of the local bond issue.

The district's repayment of the loan is determined by one of several formulas, depending upon when the loan was obtained. For districts obtaining loans approved by the state board after January 1, 1990, the district must levy the greater of 24% of ANTC or the amount necessary to pay principal and interest on the local bond issue.

In any year, if 24 percent of ANTC is the greater amount, the difference is applied to repayment of the state loan. If the amount needed for local debt service is the greater amount, no payment is required on the state loan in that year. Maximum effort capital loans are forgiven if they are not paid within 30 or 50 years of issue, depending on the date of issue.

Capital loans are initially funded by the sale of state bonds. In addition to the bond proceeds, supplemental appropriations by the legislature are necessary to make principal and interest payments because repayments of loans by districts are occurring at a slower rate than that required to meet the state's obligations.

The maximum effort capital loan program prohibits a recipient school district with an outstanding capital loan from issuing any additional bonds until either the capital loan is fully repaid or forgiven.

1 **Bond sale limitations.** Removes the restriction that prohibits a school district that has received a maximum effort capital loan from selling bonds for a new school building project once the district's capital loan has been outstanding for more than 20 years.